Manitoba

TEACHERS' RETIREMENT ALLOWANCES FUND BOARD

1986

ANNUAL REPORT

Manitoba

Teachers' Retirement Allowances Fund Board

115 — 1200 Portage Avenue
Winnipeg, Manitoba, CANADA
R3G 0T5

(204) 945-6199

June 23, 1987

The Honourable Jerry Storie,
Minister of Education,
Room 168, Legislative Building,
Winnipeg, Manitoba,
R3C 0V8.

Dear Mister Minister:

In accordance with subsection 45(3) of The Teachers' Pensions Act, we are pleased to report on our administration of the Teachers' Retirement Allowances Fund for the year ended December 31, 1986. Appended to and forming part of this report are the following:

1. Statement of "Comparative Statistics" of Significant aspects of the Fund covering the period from inception in 1925 to the end of 1986.

2. Report of the Provincial Auditor on his examination of the accounts of the Fund for the year ended December 31, 1986, as required by Clause 45(3)(a) of the Act.

3. Financial Statements in respect of the year ended December 31, 1986, as follows:

Exhibit A - Balance sheet as at December 31, 1986

Exhibit B - Statement of Changes in Benefit Reserves for the year ended December 31, 1986

Exhibit C - Statement of Money Purchase Account for the year ended December 31, 1986

Schedule 1 - Summary of Investments as at December 31, 1986

Schedule 2 - Summary of Investment Income for the year ended December 31, 1986

Notes to the Financial Statements for the year ended December 31, 1986.

INVESTMENTS

Under the Act, investments are made as directed by the Investment Committee, composed of the Chairman and a "teacher" member of the Board and the Deputy Minister of Finance for the Province. The Committee held 7 formal meetings during 1986 and the results of its decisions are portrayed in the following paragraphs. Although there was a net increase in the amount invested in every asset class, the percentage of total investments representing longer term fixed income securities reduced by approximately 2% to 54.2%, offset primarily by an increase in short term investments.

During 1986, invested assets increased by more than $60,000,000. This amount along with over $15,000,000. of funds received from securities sold or matured was invested as follows:

	% of Total	Cost (thousand $)	Average Yield %
Bonds - Governments	9.7	$ 7,286,	10.01
- Canadian Corporations	9.9	7,493,	11.20
Total Bonds	19.6	14,779,	10.62
Mortgages - Insured, NHA	25.2	19,078,	10.62
- Uninsured	6.3	4,750,	10.82
Total Mortgages	31.5	23,828,	10.66
Total Fixed Income	51.1	38,607,	10.64
Equity Investments			
Real Estate	11.4	8,609,	*
Direct Natural Resources	7.0	5,244,	*
Venture Capital	3.3	2,524,	*
Total Equity	21.7	16,377,	
Total Longer Term Investment	72.8	$54,984,	
Short Term Investment	27.2	20,600,	
Total New Investment	100.0	$75,584,	

* Rates of return to be achieved on these 3 asset classes cannot be predetermined as they are obtained through future rentals, product sales , and net capital gains at point of sale. Over the longer term, investments of these types have historically yielded greater returns than fixed income investments.

As investments in real estate, mortgages, venture capital and direct acquisition of natural resource assets require advance commitment of funds which are paid out during or on completion of construction or as required to fund venture capital or natural resource acquisitions, over $46,000,000. of unfunded commitments were in place at the end of the year, as follows:

	Amount (thousand $)	Average Yield
Mortgages - Insured, NHA	$ 22,758,	10.65%
Real Estate Equity	6,102,	*
Direct Natural Resources	10,516,	*
Venture Capital	7,166,	*
Total Commitments	$ 46,542,	

The rate of return on average net assets of the Fund increased in 1986 to 11.25% from 10.85% in the preceding year.

PENSIONS

During the year there was a net increase of 191 in the number of people receiving retirement income and other monthly benefits. The following is a summary analysis of the number of persons receiving different types of retirement income benefits at December 31, 1986:

Regular service pensions -	
to retired teachers	3,291
to dependants or estates of deceased retired teachers	105
Disability pensions -	
to retired disabled teachers	112
to dependants or estates of deceased retired disabled teachers	5
Death benefits - to surviving spouses or children of deceased teachers	53
Special annuities -	
to former teachers of retirement age not entitled to regular pensions	167
	3,733

ACTUARIAL VALUATION

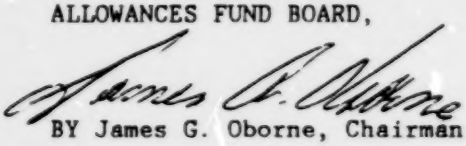
As required by the Act, an actuarial appraisal of the Fund is made every 3 years. The most recent appraisal as at January 1, 1984, disclosed an actuarial surplus of $37,677,206. as compared to an unfunded liability at January 1, 1981 of $19,506,225. This significant improvement in the financial position of the Fund ensured that resources were available to meet all existing obligations under the Act as well as the increased liabilities resulting from subsequent changes in the Act that were required to bring the Plan into compliance with amendments that had been made to The Pension Benefits Act. A valuation as at January 1, 1987 is currently being done and will be reported upon when completed.

LEGISLATIVE CHANGES

At the 1986 session of the Legislature, the Act was amended to permit the extension of the application of portable pension agreements to teachers who had moved inter-provincially prior to July 1, 1973. There were also a number of other amendments made to clarify wording and references.

Respectfully submitted:

THE TEACHERS' RETIREMENT
ALLOWANCES FUND BOARD,



BY James G. Oborne, Chairman,

Members:

(2) George Eakin
William E. Lavery, Vice Chairman
(1) David Lerner
(1) Murray Smith
(1) George Strang
(2) Ray Whiteway

(1) Nominated by The Manitoba Teachers' Society
(2) Nominated by The Manitoba Association of School Trustees

TEACHERS' RETIREMENT ALLOWANCES FUND BOARD
COMPARATIVE STATISTICS
1925 - 1986

Year Ended June 30	Net Assets	Income From Investments			CONTRIBUTIONS			Admin. Expenses	Refunds	Pensions			
			Approx. Rate of Return %	Number of Teachers Contributing	Teachers	Province of Manitoba	School Districts			Cost	Being Paid at end of period	Added during period	Deleted during period
	($ 000)	($ 000)			($ 000)	($ 000)	($ 000)	($ 000)	($ 000)	($ 000)			
1925-1948	1,866,	628,	4.00		1,761,	248,	--	33,	279,	464,	109	192	83
1949-1963	23,225,	5,548,	3.25-4.70	7,750	12,422,	3,830,	3,617,	258,	2,630,	5,500,	781	958	286
1964.....	25,316,	1,144,	4.85	8,700	2,247,	256,	527,	44,	531,	1,509,	895	148	34
1965.....	28,084,	1,281,	5.00	9,000	3,137,	201,	539,	40,	610,	1,750,	960	101	36
1966.....	30,387,	1,427,	5.00	9,400	2,962,	538,	287,	39,	803,	2,072,	1,032	102	30
1967.....	33,746,	1,574,	5.15	9,750	2,972,	1,017,	11,	44,	859,	2,251,	1,084	88	36
1968.....	36,839,	1,735,	5.35	10,650	3,655,	1,227,	20,	57,	904,	2,594,	1,155	120	49
1969.....	40,627,	2,008,	5.50	11,150	4,332,	1,394,	12,	56,	990,	2,906,	1,253	138	40
1970.....	44,828,	2,320,	5.60	11,650	4,710,	1,578,	13,	64,	1,116,	3,261,	1,357	143	39
6 mos. ended Dec. 31, 1970	46,311,	1,369,	6.00	11,750	1,806,	1,280,	5,	31,	649,	2,310,	1,458	124	23
year ended Dec. 31,													
1971.....	52,119,	3,125,	6.19	12,100	5,620,	3,123,	16,	90,	1,048,	4,955,	1,606	195	47
1972.....	60,249,	3,977,	6.40	12,000	6,281,	3,841,	10,	114,	1,244,	5,670,	1,737	182	51
1973.....	68,188,	3,996,	6.53	12,200	6,982,	6,100,	9,	123,	1,186,	7,076,	1,980	293	50
1974.....	77,256,	3,078,	4.43	12,300	7,862,	8,755,	8,	136,	1,449,	8,957,	2,176	244	48
1975.....	89,277,	7,008,	8.94	12,400	9,316,	7,538,	6,	168,	1,385,	10,661,	2,289	171	58
1976.....	101,988,	8,090,	8.91	12,500	10,656,	8,519,	5,	215,	1,471,	12,388,	2,416	175	48
1977.....	117,140,	9,260,	8.91	12,600	12,348,	9,322,	5,	290,	1,449,	14,018,	2,524	161	53
1978.....	137,127,	12,007,	9.91	12,716	14,538,	9,985,	11,	261,	1,499,	15,489,	2,649	187	62
1979.....	159,066,	14,917,	10.60	12,533	16,292,	10,859,	4,	292,	1,817,	17,212,	2,789	196	56
1980.....	184,458,	17,181,	10.53	12,471	18,065,	11,848,	5,	358,	2,174,	19,050,	2,935	218	72
1981.....	222,755,	22,877,	14.02	12,805	25,985,	12,617,	--	404,	2,191,	20,867,	3,007	143	71
1982.....	272,360,	27,991,	11.96	12,907	26,293,	13,912,	--	493,	2,210,	23,054,	3,117	194	84
1983.....	316,200,	29,139,	10.45	12,915	27,557,	15,183,	--	549,	2,027,	25,519,	3,239	197	75
1984.....	360,060,	28,579,	8.86	13,111	29,580,	16,453,	--	660,	1,980,	28,522,	3,355	213	97
1985.....	414,458,	39,506,	10.85	13,287	31,214,	18,184,	--	709,	1,914,	32,092,	3,542	260	73
1986.....	475,214	46,935,	11.25	13,763	32,890,	20,423,	--	823,	1,744,	36,771,	3,733,	291	100

Manitoba

THE TEACHERS' RETIREMENT ALLOWANCES FUND

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the financial statements, being Exhibits A, B and C and Schedules 1 and 2, of The Teachers' Retirement Allowances Fund for the fiscal year ended December 31, 1986. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1986 and the results of its operations for the year then ended in accordance with the accounting policies stated in note 2 to the financial statements applied on a basis consistent with that of the preceding year.

F. H. Jackson, CA,
Provincial Auditor

June 5, 1987
Winnipeg, Manitoba

Exhibit A

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Balance Sheet
as at December 31, 1986
(with 1985 figures restated for comparison)

A S S E T S

	1986	1985
Investments, Schedule 1	$466,042,597	$405,778,345
Unamortized net adjustment to book value of securities sold before maturity	92,923	124,722
Accrued interest on investments	5,395,267	4,803,358
Investment income receivable	1,511,723	989,668
Teachers' contributions receivable from school divisions	2,234,808	2,373,570
Receivable from Government of the Province of Manitoba	533,577	87,000
Computer equipment, at cost less accumulated amortization of $67,168 (1985 - $35,668), Note 2(F)	104,495	107,767
	$475,915,390	$414,264,430

L I A B I L I T I E S

Bank overdraft and cash on hand	$ 701,862	$ (280,710)
Money Purchase Account, Note 4, Exhibit C	19,444	120,989
Provision for Fund's share of employees' pension benefits, Note 2(E)	512,239	439,233
	1,233,545	279,512
Benefit Reserves, Exhibit B:		
Reserves for teachers' share of benefits:		
Basic	434,665,462	379,143,556
Pension indexing adjustments	38,563,706	33,576,226
Reserves for employers' share of benefits:		
Manitoba Teachers' Society	1,317,901	1,152,036
Manitoba Association of School Trustees	134,776	113,100
	474,681,845	413,984,918
	$475,915,390	$414,264,430

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Statement of Changes in Benefit Reserves
for the year ended December 31, 1986
(with 1985 figures restated for comparison)

	1986					1985
	Reserve for Teachers' Share of Benefits		Reserve for Employers' Share of Benefits			
	Basic	Pension Indexing Adjustments	Manitoba Teachers' Society	Manitoba Association of School Trustees	Total	Total
Additions:						
Contributions:						
Teachers	$ 28,078,358	$ 4,811,438	$ --	$ --	$ 32,889,796	$ 31,213,813
Province of Manitoba:						
Share of benefits charged	18,681,771	--	--	--	18,681,771	16,436,923
Re: Actuarial liability created by 1970 and 1973 amendments	1,613,300	--	--	--	1,613,300	1,613,300
Prior rural service of certain Winnipeg teachers	127,460	--	--	--	127,460	133,351
Manitoba Teachers' Society	--	--	68,589	--	68,589	67,095
Manitoba Association of School Trustees	--	--	--	8,106	8,106	8,000
Other - Transfers under reciprocal agreements	687,658	--	--	--	687,658	909,930
Transfer from (to) Money Purchase Account, Exhibit C	135,725	--	--	--	135,725	(110,975)
Total contributions	49,324,272	4,811,438	68,589	8,106	54,212,405	50,271,437
Investment Income, Schedule 2, Note 2	42,406,224	4,384,169	131,420	13,570	46,935,383	39,495,826
Total additions	91,730,496	9,195,607	200,009	21,676	101,147,788	89,767,263
Deductions:						
Pensions paid	32,528,822	4,208,127	34,144	--	36,771,093	32,092,001
Contributions refunded	1,743,922	--	--	--	1,743,922	1,914,247
Transfers under reciprocal agreements	1,112,877	--	-	--	1,112,877	1,061,417
Administrative expenses	822,969	--	--	--	822,969	708,958
Total deductions	36,208,590	4,208,127	34,144	--	40,450,861	35,776,623
Net increase for year	55,521,906	4,987,480	165,865	21,676	60,696,927	53,990,640
Balance at beginning of year	379,143,556	33,576,226	1,152,036	113,100	413,984,918	359,994,278
Balance at end of year, Exhibit A	**$434,665,462**	**$38,563,706**	**$1,317,901**	**$134,776**	**$474,681,845**	**$413,984,918**

Exhibit C

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Statement of Money Purchase Account for the year ended December 31, 1986 (with 1985 figures restated for comparison)

	1986	1985
Additions:		
Deposits	$ 33,304	$ 110,975
Allocation of interest income net of administration fee	876	10,014
	34,180	120,989
Deductions:		
Transfer to basic reserve, Exhibit B:		
Upon election of annuity	14,444	--
For transfer to other plans	121,281	--
	135,725	--
Increase (decrease) for the year	(101,545)	120,989
Balance at beginning of year	120,989	--
Balance at end of year, Exhibit A	$ 19,444	$ 120,989

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investments as at December 31, 1986

	Par Value	Book Value
Fixed income longer term investments, Note 2(B)(i):		
Bonds and debentures issued by, or guaranteed by, the following:		
Canada	$ 47,357,500	$ 39,967,585
Province of Alberta	165,000	164,837
Province of British Columbia	518,000	516,215
Province of Manitoba	23,437,000	23,407,457
Province of New Brunswick	915,000	912,413
Province of Newfoundland	1,150,000	1,144,430
Province of Nova Scotia	270,000	268,407
Province of Ontario	6,450,000	5,351,903
Province of Prince Edward Island	740,000	732,632
Province of Quebec	760,000	758,172
Province of Saskatchewan	700,000	697,590
Hospital Districts	6,435,000	6,418,743
Municipal corporations	11,118,475	11,095,843
Corporations	64,885,215	63,004,700
	164,901,190	154,440,927
Mortgages:		
Insured:		
National Housing Act (Canada)	83,619,089	83,014,511
Other	5,122,386	5,035,171
Uninsured	12,594,724	12,537,366
	101,336,199	100,587,048
Total fixed income longer term investments at amortized cost		255,027,975
Less: Provision for capital losses		2,364,909
Net fixed income longer term investments, carried forward		$252,663,066

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investments as at December 31, 1986

	Book Value
Brought Forward	$252,663,066
Non-fixed income investments, Note 2(B)(ii):	
Real estate equity investments:	
Common shares	25,185,924
Participating bonds	44,554,174
Qualifying shares	30,000
Total real estate equity investments, at appraised values	69,770,098
Less: Provision for valuation declines	1,554,684
Net real estate equity investments	68,215,414
Direct natural resource investments:	
Shares and notes, at cost plus interest in retained earnings	15,260,826
Investment in subsidiary, Note 3	7,105,676
Total direct natural resource investments	22,366,502
Venture capital equity investments, at appraised values	10,811,106
Less: Provision for valuation declines	556,500
Net venture capital equity investments	10,254,606
Mortgage investment corporation shares, at cost	1,312,021
Real estate acquired through mortgage defaults	4,030,988
Total non-fixed income investments	108,179,531
Short Term notes, at cost	105,200,000
Total Investments, Exhibit A	$466,042,597

Schedule 2

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investment Income
for the year ended December 31, 1986
(with 1985 figures restated for comparison)

	1986	1985
Fixed income longer term investments, Note 2(B)(i):		
Interest	$28,441,356	$25,759,631
Amortization of discounts and premiums	927,614	451,426
	29,368,970	26,211,057
Less: Allocation to provision for capital losses	601,650	547,577
	28,767,320	25,663,480
Non-fixed income investments, Note 2(B)(ii):		
Real estate equity:		
Interest and dividends	4,953,529	4,703,509
Adjustment due to changes in book value of investments	437,958	503,977
	5,391,487	5,207,486
Direct natural resources:		
Income from subsidiary	579,721	1,080,153
Dividends	659,560	677,004
Adjustments due to changes in book value of investments	--	(82,987)
	1,239,281	1,674,170
Venture capital equity:		
Income	1,894,068	81,232
Adjustments due to changes in book value of investments	556,500	--
	2,450,568	81,232
Mortgage investment corporation:		
Dividends	--	153,826
Canadian Commercial Bank:		
Dividends	--	44,898
Adjustment due to changes in book value of investments	(299,995)	(1,660,863)
	(299,995)	(1,615,965)
Income from real estate acquired through mortgage defaults	603,946	352,338
Short term notes:		
Interest	8,834,164	8,032,679
Total investment income	46,986,771	39,549,246
Allocated to:		
Provision for Fund's share of employees' pension benefits	(50,512)	(43,406)
Money Purchase Account, net of administration fee	(876)	(10,014)
Net Investment Income, Exhibit B	$46,935,383	$39,495,826

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Notes to the Financial Statements for the year ended December 31, 1986

1. Nature of the Organization:

The Teachers' Retirement Allowances Fund Board was originally constituted under an Act passed at the 1925 session of the Legislature and is responsible for administering the current legislation, The Teachers' Pensions Act. The Act provides for the establishment and maintenance of a pension plan and fund to provide retirement security for all public school teachers in Manitoba.

The Teachers' Retirement Allowances Fund primarily consists of contributions made by teachers and provides funds to meet half the cost of retirement benefits.

2. Significant Accounting Policies:

The significant accounting policies are summarized below:

(A) The Fund follows the accrual basis of accounting in all cases where the amount of the accrual is material, specifically teacher contributions and investment income.

(B) The investment valuation and income measurement policies consist of:

(i) Fixed income investments:

Income on fixed income investments includes the net effect of amortization of discounts and premiums on securities held as well as amortization of book losses on bonds sold before maturity in order to acquire other securities for an increase in net yield.

One quarter of 1% of the weighted average monthly book value during the year of fixed income longer term investments is allocated to a provision for capital losses and any actual losses realized are charged against the provision.

(ii) Non-Fixed income investments:

Where valuation information is available, which is considered by the Investment Committee to be reliable, equity investments are adjusted to reflect the change in their values. One-half of any unrealized appreciation is taken into income in the year and the balance is credited to the provision for valuation declines. In any year that the valuations decrease, the whole of the decrease is charged to the provision. When an investment is sold, the balance in the provision pertaining to the investment sold is transferred to income.

(a) Investment in subsidiary:

The investment in subsidiary is accounted for on the equity method. On this basis the net change in the equity of the wholly owned subsidiary, Teachers' Retirement Resources Investment Corporation of Manitoba Inc., is recognized as income to the Fund and increases the carrying value of the investment.

(b) Real estate acquired through mortgage defaults:

Properties taken over by the Fund as a result of mortgage defaults are recorded at cost. These properties presently provide the Fund with rental income and will be sold when economic conditions are favorable.

(C) Pension indexing adjustment reserve:

An allocation of teachers' contributions is made to the reserve in accordance with the Act. Interest is allocated to the reserve on the basis of the average rate earned by the Fund on all fixed income investments in the Fund.

Cost of living pension adjustment payments are calculated effective July 1 in each year and are based on the lesser of the increase in the Canadian Consumer Price Index for the preceding calendar year, or the amount, determined by an actuarial review, that could be paid without resulting in an unfunded liability in the reserve.

(D) Actuarial valuation:

The financial statements do not reflect the financial position of the Fund on an actuarial valuation basis. In accordance with the Act, an actuarial valuation and report is required every 3 years. The most recent actuarial report as at January 1, 1984, disclosed a surplus of $37,677,206 compared to an unfunded liability of $19,506,225 at January 1, 1981. This most recent valuation did not make allowance for the financial effect of changes required to be made as a result of amendments to The Pension Benefits Act and the Actuary advised that it is possible that all of the surplus will be required to finance the resulting increase in liabilities.

(E) Provision for Fund's share of employees' pension benefits:

A portion of the Fund was allocated to provide for the Fund's accrued actuarial liability based on an actuarial report at December 31, 1980. The report provided a method of allocating funds to the Provision each year between triennial valuations to recognize the annual increase in this liability and for adjustments to be made for actual experience at each valuation. Transactions affecting the Provision in 1986 and 1985 were as follows:

	1986	1985
Balance, beginning of year	$439,233	$377,448
Required employer contributions charged to Administrative expenses	23,773	21,198
Interest allocated from investment income	50,512	43,406
	513,518	442,052
Less: Fund's share of pension payments	1,279	2,819
Balance, end of year	**$512,239**	**$439,233**

(F) Computer Equipment:

Computer equipment and software acquisitions are capitalized and amortized on a straight line basis over five years.

3. Investment in Subsidiary:

The Teachers' Retirement Resources Investment Corporation of Manitoba Inc. (TRRICMI), a wholly owned subsidiary of the Fund, was incorporated on July 13, 1983, for the purpose of participating in the energy resource sector on behalf of the Fund.

The Fund's investment in TRRICMI is comprised of:

	1986	1985
Shareholder's advances	$6,525,816	$5,245,307
Capital stock	100	100
Retained earnings	579,760	1,279,739
Investment in subsidiary	**$7,105,676**	**$6,525,146**

4. Money Purchase Account:

The Teachers' Retirement Allowances Fund Board has established rules for the Money Purchase Account in accordance with Section 68 of The Teachers' Pensions Act. Under these rules, eligible individuals may transfer to the Money Purchase Account an amount from the Fund, the pension plan of a prior employer, or a locked-in registered retirement savings plan, to provide for an annuity or other settlement in the future. The Money Purchase Account is accounted for separately by the Board. The Board charges an annual administrative fee of 1% of the average value of the assets in the plan. The accumulated value of the eligible individual's account, upon election of an annuity under the Money Purchase Account, is transferred to the Basic Benefit Reserve.